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I see no reason why we can't get to an average of 10,000 transactions per machine per month. But the promotions just aren't there.

Linda Fenner Zimmer, an ATM industry researcher, on the decline in automated teller machine use [Page 1]

Unquote

Top 10 Regional ATM Networks

By Interchange (Interbank) Transactions

Network, Home State	Number of ATMs	Interchange uses per card per year	Percent interchange transactions	Interchange transactions (mil./month)
Mac, Pennsylvania	2,070	13.5	52%	5.58
Pulse, Texas	4,353	5.3	18	3.02
Exchange, Washington	1,300	16.4	53	3.00
Mpact, Texas	1,272	15.6	33	2.74
Honor, Florida	2,382	6.4	18	2.24
Avail, Georgia	1,247	10.8	25	2.07
CashStream, Pennsylvania	1,844	6.9	18	2.04
Cash Station, Illinois	1,259	15.0	55	2.00
NYCE, New York	2,754	3.0	NA	1.75
Shazam, Iowa	864	16.2	26	1.62

NA-not available

Source: Speer & Associates. Data as of Dec. 31, 1986.

Decline in Rate of ATM Use Prompts Talk of Saturation

By JEFFREY KUTLER

NEW YORK — Evidence is mounting that the United States' automated teller machine market is approaching the saturation point.

Despite consumers' growing awareness of ATMs, the number of transactions per machine is falling.

In other words, ATM networks are growing faster than consumers' appetite for their services — and have been for several years.

US Leads in ATMs, but Japan Closing In Page 24

Whether this represents a temporary lull or a permanent reversal, the downturn has forced financial institutions to rethink their strategies on retail electronic funds transfer and look elsewhere — notably to point-of-sale debit networks — for growth.

Companies that manufacture ATMs are in the midst of a similar reassessment, as bankers have cut back on machine purchases.

The latest indication of a change in the ATM market comes from Speer & Associates, the Atlanta-based consulting firm, in its semiannual survey of regional automated teller machine networks.

Speer found that while a healthy consumer demand continues for ATM services, the average machine was getting less use in December 1986 than six months earlier.

The reduction in per-machine activity helps explain why annual shipments from ATM manufacturers have declined to about 8,000 units from a peak of 14,000 in 1983.

Speer's data pertain only to interchange volume — the transactions that flow between financial institutions in a given ATM network. But interchange volume is a key measure of success for the ATM industry. At least 80% of ATMs are connected to at least one shared network, and bankers use network affiliations as a selling point with retail customers.

The interchange statistics confirm a broader, downward movement that Linda Fenner Zimmer, an ATM indus-

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BankAmerica Nearing Deal With Japanese

Tokyo Group Amenable To $350 Million Offering

Special to the American Banker

TOKYO — After weeks of talks, leading Japanese bankers have agreed in principle to provide troubled BankAmerica Corp. with a capital infusion, industry sources here said.

The agreement to subscribe to $350 million in BankAmerica securities came at a meeting Monday of nine major Japanese banks. Final terms of the deal still must be negotiated.

"As far as the terms are concerned, we have reached a general consensus that they are favorable to us," said one senior banker, who added that the remaining negotiations could drag on for several weeks. The next meeting is scheduled for Tuesday.

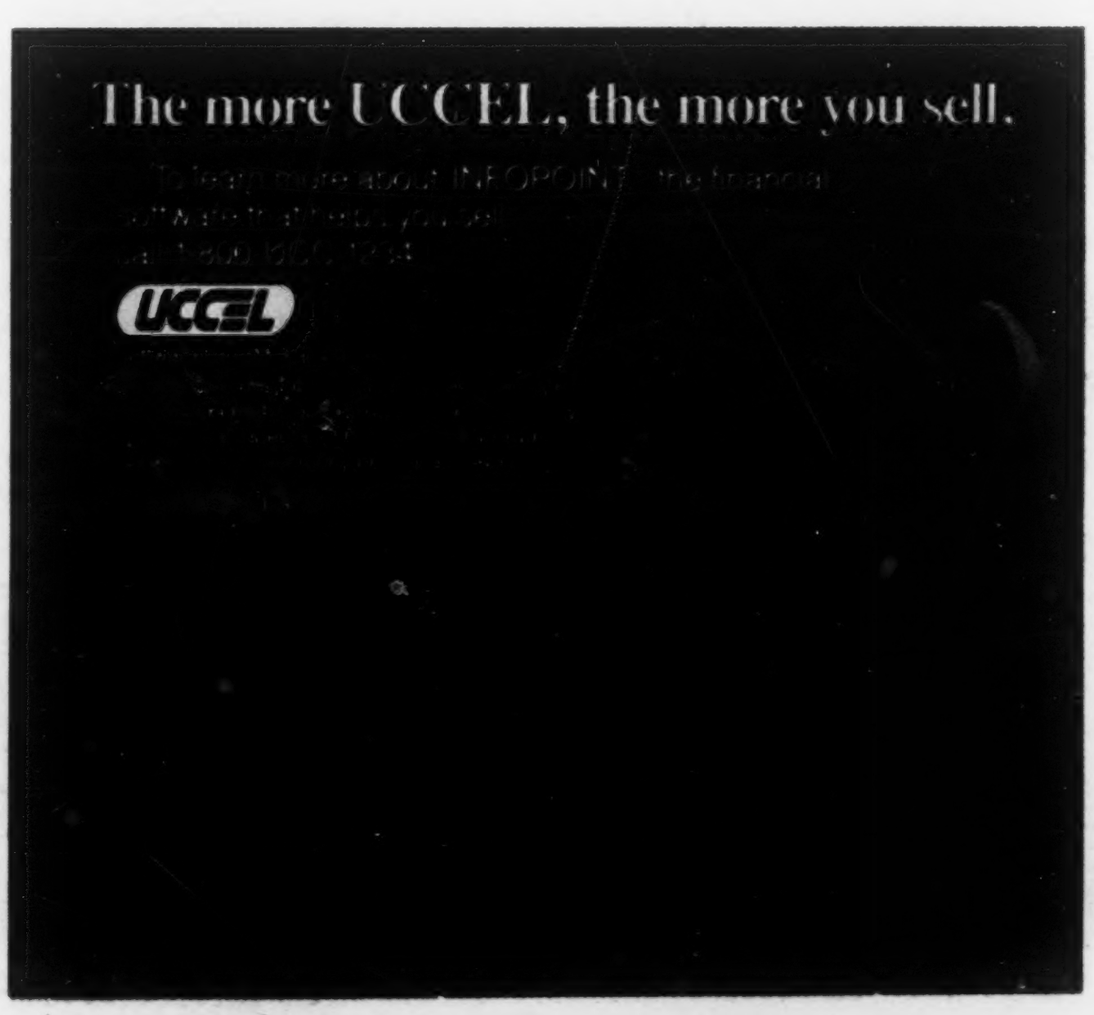
The nine banks are Mitsui Bank, Dai-Ichi Kangyo Bank, Fuji Bank, Sumitomo Bank, Mitsubishi Bank, Sanwa Bank, Bank of Tokyo Ltd., the Industrial Bank of Japan, and Yasuda Trust & Banking Co. Mitsui, which has the closest relationship with BankAmerica, coordinates the meetings and negotiations. The bank is expected to be the lead manager for the securities, which will consist of notes and preferred stock.

As they have for several weeks, BankAmerica officials in San Francisco declined to comment on the Tokyo talks.

More troublesome for the Japanese than the issuing terms, bankers said, is the uncertainty over U.S. regulatory rules on subordinated capital notes, which are likely to be redefined shortly.

"We haven't even received the prospectus," said one complaining banker. "I am worried that if we go ahead with

Japanese: Page 21 ➤



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Speer Survey Shows Transactions per ATM Are on the Decline

➳ Continued from Page 1

try researcher, has been tracking since 1982.

Between 1982 and 1986, as ATMs in use in the United States nearly doubled to 67,000 from 36,000, transactions per machine fell to about 5,000 per month from 7,200, Mrs. Zimmer said.

Meanwhile, interbank ATM transactions fell at yearend 1986 to 972 per machine per month, down 11.5% from 1,099 at the average network-connected ATM in mid-1986, Speer & Associates said.

The decline was even more pronounced among the eight biggest regional networks, an elite group that includes the Mac system in the Mid-Atlantic states and the Pulse system in the Southwest. The average number of monthly interchange transactions at the top eight shared networks fell 13.5% to 1,514 per machine at Dec. 31, 1986, from 1,750 at June 30, 1986.

To many ATM industry observers, fewer transactions per machine is tantamount to saturation — a chilling notion to teller machine manufacturers, because it suggests the end is near for what seemed a boundless growth market only five years ago.

Profitability at Diebold Inc., the leading U.S. ATM vendor with 40% to 45% of the machines installed, has suffered because of reductions in bank capital expenditures.

Diebold, which experienced a 35% drop in per-share net income during the first quarter of 1987 from a year earlier, is more susceptible to the ATM slowdown than its major competitors, which have more diversified sources of income. Those competitors include International Business Machines Corp., NCR Corp., and the U.S. subsidiaries of the Japanese computer giants Fujitsu Ltd. and Omron Tateisi Electronics Ltd.

Security analysts who follow Diebold take a relatively optimistic view of the company, but not because of any rebound in the traditional, financially related ATM business. Diebold has a good lock on the ATM service and maintenance business, which will be around as long as there are ATMs.

For growth, the company is adapting ATM technology to dispense tickets in train stations and airports, coupons in supermarkets, and videocassettes in convenience stores.

The saturation talk is misplaced, said Robert Mahoney, president of Diebold Inc. in a recent interview. The real cause of the slowdown, he said, is the failure of most financial institutions to do the necessary marketing and promotion of ATMs.

Market research by Diebold and others has shown that about half of all U.S. bank customers have been given ATM cards, but only a third of these have become frequent ATM users. Bankers who have been unable to win more customers over to ATMs call that limit the "33% wall."

Mr. Mahoney said a few exceptions, notably Citibank in New York, have cracked the wall with aggressive marketing and persuasion.

By issuing cards to everyone with a checking account and integrating the cards into the delivery of virtually all retail services, Citibank claims that 80% of its customers use ATMs. Interestingly, Citibank's more than 600 ATMs in the New York market, soon to be expanded to 900, are almost all on branch premises and are not connected to any shared network.

Most of Citibank's local competitors have joined the New York Cash Exchange, which ranks ninth on Speer & Associates' list in interbank ATM volume.

Fear of Helping Competitors

Mrs. Zimmer, who monitors the ATM industry from her home in Marlborough, Conn., also scoffs at the idea of saturation and blames poor bank marketing.

Many banks that belong to shared networks such as NYCE are reluctant to promote the service to the utmost, Mrs. Zimmer said, "because they are afraid that they will help their competitors in the process."

The growing custom of charging fees, typically between 50 cents and $1, when a customer gets cash from another bank's machine is discouraging added volume, she said. And this is the very interchange volume that Speer & Associates is measuring.

"We are talking about bankers who did a great job on the operations and technical side to bring these networks about, but who didn't exert a parallel effort on the marketing side," Mrs. Zimmer said.

"We have a situation where the same number of ATM-using customers are running around as before, but with the growth in networks they have a greater number of available ATMs to choose from.

"I see no reason why we can't get to an average of 10,000 transactions per machine per month," she said. "But the promotions just aren't there. I know some bankers are pleading poverty, that their marketing budgets have been cut back. But there is a lot of room for creativity, and I don't see enough of it."

Richard N. Speer Jr., president of Speer & Associates, called it a case of "over-ATMing" by the financial institutions that belong to the networks included in his company's study. Many are also Speer clients.

At the end of last year, the top 20 networks had 29,960 ATMs among them, up 17% in six months. These machines were handling 37.4 million transactions per month, up only 4% from Speer's first survey.

"Quite simply, ATM installations [attributed to] the addition of new network members, and deployment of new machines by existing members are rising faster than card bases or usage per card," Mr. Speer said.

Growth Anticipated in 1987

Respondents to the yearend 1986 questionnaire projected a 24% increase in interchange transactions for the first six months of 1987, on top of a 9% rise in the machine total. Mr. Speer said those rates of growth could be caused by fewer new ATM installations or by the fact that new network members tend to be smaller banks with relatively few machines.

"If it is the former," Mr. Speer said, "then ATM sharing may finally have slowed the deployment of ATMs with their high fixed costs. Such a trend would lead to increased volume levels and lower transaction costs."

The eight largest shared networks, each with at least 1.9 million transactions per month, outperformed all others in terms of interchange transactions per machine — 1,514, compared with the industry average of 972 — and annualized interchange transactions per debit card — 10.3 versus 7.2.

By contrast, nine smaller networks in the range of 500,000 to 999,999 monthly interchange transactions registered below-average use, 789 transactions per machine and 3.6 per debit card.

Speer & Associates said the big networks have an advantage "in terms of sheer geographical coverage and the greater awareness that larger networks typically create with signage and more intense marketing campaigns."

As in Speer's first survey, the industry leader in ATM interchange transactions was Mac, the five-state, 2,000-machine network operated by Philadelphia National Bank. Its monthly interchange volume of 5.6 million transactions was down from 6.4 million, which topped the June 1986 standings.

Pulse, based in Houston and serving five southwestern states, was second with 3 million monthly interchange transactions but first in total ATMs at 4,353. Pulse edged out the Exchange network in the Pacific Northwest by 17,000 interchange transactions.

The 3 million interchange transactions in Pulse equaled only 18% of that network's total transactions, with intra-institution items included. The comparable percentages for Mac and Exchange were 52% and 53%, respectively.

Mpact Fourth, Honor Fifth

After the top three, which were unchanged from mid-1986, came Mpact, another Texas-based network, at 2.7 million interchanges per month, followed by the Honor System in Florida, with 2.2 million interchanges. Interchange transactions accounted for 33% of Mpact's total volume and 18% of Honor's.

Honor's fifth-place standing did not change. Mpact, owned by MTech Corp., Dallas, was not among the 47 networks that contributed data to the initial 1986 survey, so this is its first appearance on the Speer list.

Fourth in the original survey was the ATM network of Publix Super Markets Inc., Lakeland, Fla. Publix dropped to 11th at yearend with 1.5 million interchange transactions per month.

For the yearend Speer report, 56 of the top 100 networks participated.

Most networks in the top 20 — ranging from Mac with 5.6 million transactions per month down to Service Card System with 700,000 transactions in Kansas, Missouri, and Oklahoma — corresponded to the top 20 in monthly switch volume as published in December by *Bank Network News*, a Chicago-based newsletter. However, the order was quite different.

The *Bank Network News* listing comes from an industry survey that is more complete than Speer's. The switch volume includes both interchange volume and transactions originating at ATMs connected to a network's central hub (rather than to a bank). Some in the latter category were omitted in Speer's calculations.

As a result, the two listings are not directly comparable, though *Bank Network News* also placed Mac at the top. Mpact was second in total switch volume, followed by BayBanks Inc.'s XPress-24 network in New England, Mellon Bank's CashStream in Pennsylvania and surrounding states, and Exchange in the Northwest.

The Speer survey does not include debit card networks such as Interlink in California and the Cactus Switch in Arizona. Although their transaction volumes are worthy of Speer's top 20, they were excluded because they consist entirely of point-of-sale terminals and have no ATMs.

Nineteen of the 56 respondents to the Speer survey supported point-of-sale operations at yearend 1986, most of them just getting started. During the entire year, the 19 networks handled 2.7 million direct debit transactions through almost 22,000 POS terminals. The network switches, however, were driving less than 3,000 terminals, with the remainder operated by financial institutions or retail stores. ■

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MCorp Auction-Rate Preferred Stock Fails a Second Time to Attract Buyers

➳ Continued from Page 2

ferred stock in 1985, it was a double-A rated company. Since then, MCorp has encountered earnings problems stemming primarily from oil loans. The company's debt rating now stands at B, well below investment grade.

"MCorp's problem was its very steep and unexpected decline in ratings," said Mr. Chambliss, "not the auction-rate preferred instrument."

The failed auctions were not unexpected, said Paul Baeri, a managing director at L.F. Rothschild & Co. Investors had opportunities in several past auctions to divest MCorp's auction-rate preferred shares.

Rising Dividend Was a Red Flag

Mr. Baeri pointed out that the dividend rate on the shares had been rising steadily in recent auctions, a red flag that could warn of a failed auction in the future.

Mr. Baeri added, however, that the failed auctions have caused some underwriters to place higher ceiling rates on new issues, such as 200% of the double-A commercial paper rate.

Also, some issuers have suggested allowing investors to sell their shares back to the issuer in case of a failed auction. This idea, however, might not pass regulatory muster.

The Internal Revenue Service, sources say, would consider any preferred stock with a "put" option to be debt and would therefore remove the 85% dividend tax exclusion it offers investors. This tax preference is a primary reason for investing in the shares and allows issuers to keep rates down.

Investment bankers also believe that the Federal Reserve Board probably would not allow shares to be counted as primary capital if they could be sold back to the issuer precisely when the company was in trouble, which is when an auction would fail. ■

US Has Largest Number of ATMs, But Lead Is Slipping

Japan Closes in with Most Machines per Person; Sweden Tops List in Efficiency

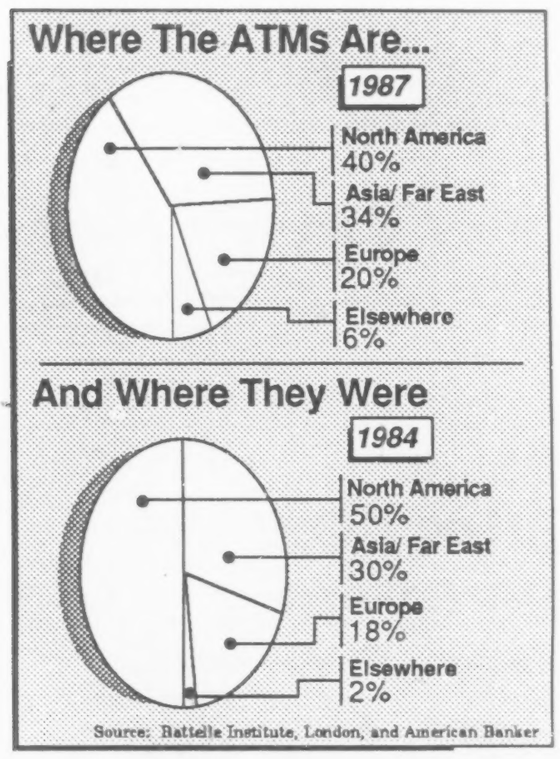
By JEFFREY KUTLER

NEW YORK — Chubb Ltd. and De La Rue Ltd., two British companies, invented automated teller machines in the 1960s, but the United States led the world into massive ATM deployment in the 1970s and early 1980s.

Now that growth has slackened in the U.S. ATM industry, the United States is no longer the dominant force it once was.

As recently as 1984, U.S. financial institutions had installed almost a majority of the world's self-service banking machines. By early 1987, their share had declined to 38%.

ATM growth rates also have fallen in Europe, but not nearly as much. The other pillars of the industrialized world are taking up where the U.S. ATM boom left off, and Japan is closing in on the ATM lead.



Japan has the most ATMs per citizen. Sweden leads in ATM efficiency, with Canada close behind. Efficiency is measured in terms of transaction volume per machine.

With 67,000 ATMs in place, the United States still leads Japan by 12,000 machines, according to statistics gathered early this year by the Battelle Banking Research Group in London, a part of Battelle Memorial Institute, Columbus, Ohio.

The United States and Japan have the most well-developed ATM networks and the most intricate arrangements for sharing those networks among large numbers of banks. No other country is in the same class.

Britain is third with 10,800 ATMs, and France is fourth with 9,500. Spain, in fifth place, has less than half of France's total.

Europe as a whole, however, accounts for 20% of the 175,000 worldwide ATM installations, compared with 34% in the Japanese-led Far East, 40% in North America, and 6% elsewhere.

Calculating Density

The ATM business varies greatly between countries and continents, and raw numbers of machines do not tell the whole story, said Peter Hirsch, Battelle's London-based research manager.

Recent data gathered by Battelle show Japan leads in machine density — the number of ATMs and cash dispensers per person. (Battelle's statistics include both multiple-function ATMs and single-function cash dispensers.)

Japan's banks have installed 470 machines to serve each one million inhabitants, nearly double the U.S. ratio of one machine per 282 per million people.

"In Europe, the density is at most only about one-third of that found in Japan," Mr. Hirsch said recently. "France and Britain top the list [in Europe], and it can be seen clearly by this measure how far Germany lags behind most other large, developed countries."

West Germany's ATM density of 55 per million is lower than in all major European countries except Italy, which is at 44 per million.

Sweden and Canada excel in the key measure of cash withdrawals per machine per month, at 7,700 and 7,000, respectively. In third place, at 5,000, is the United States. The U.S. number has been declining for several years, but Sweden and Canada demonstrate improvement is possible.

Sweden's success in marketing ATM and cash-dispensing services can be traced back to the late 1960s when its banks shortened their hours and provided 24-hour banking machines to compensate. Now an entire generation of bank customers have become familiar with the country's all-inclusive commercial bank and savings bank networks.

Canada began to make major ATM strides only in this decade. Its banks operate about 3,200 ATMs, an 18% gain in a year. Transaction volume has begun to soar over the past two years with the advent of Interac, a nationwide shared ATM network connecting all the major financial institutions.

Canada's single nationwide ATM system is less confusing to consumers than the half-dozen national networks and 200 regional networks being promoted in the United States.

Typical of the Canadian experience is the nation's largest commercial bank, the Royal Bank of Canada, which owns almost 1,300 of the machines. Its average ATM handles 11,939 transactions per month, 60% of them cash withdrawals, said Michael Carle, a spokesman for Royal Bank.

Both Sweden and Canada have populations that are smaller, more socioeconomically homogeneous, and more uniformly educated than in the United States, which may help explain their ability to sell automation.

Sweden, with a land area larger than that of California, has 8.3 million residents, one-third of California's population.

Canada's population of 25 million is about the same as California's. While Canada's is spread across the width of the North American continent, a majority of Canadians live within 100 miles of the U.S. border and have long been accustomed to getting cash in bank branches other than their own.

ATM manufacturing companies find European and North American markets to be very different, Battelle Institute said. Diebold has placed 45% of U.S. ATMs, but it and its marketing partner, Philips NV of the Netherlands, control only 4% of the European market.

IBM Corp., second in the United States with a 21% market share, leads Europe at 27%.

NCR Corp. is second in Europe at 26% and third in the United States at 15%. European-owned vendors such as Olivetti of Italy and Dassault of France have gotten 34% of the business on their own continent and 15% in America. Most of the remaining 3% in the United States, and a similar percentage in Europe, belongs to the Japanese.

It seems universally true that bankers do not know all about managing ATM technology, and that they have made some mistakes.

"Large numbers of machines and networks have proved expensive and uneconomic for banks to operate," said Mr. Hirsch of Battelle. "Even for the most successful networks, the result of operating ATMs is not to make a great profit but to absorb increases in transaction volumes, achieve some worthwhile productivity increases, and make some relatively modest cost savings."■

ATM and Cash Dispenser Usage In 11 Industrialized Nations

Country	Number of Machines	Machines per Million People	Cash Withdrawals Per Machine Per Month
United States	**67,000**	282	5,000
Japan	55,000	**470**	NA
Britain	10,800	190	4,200
France	9,500	174	3,100
Spain	4,400	113	2,500
Australia	3,600	237	NA
West Germany	3,400	55	3,900
Canada	3,241	130	7,000
Italy	2,500	44	1,000
Sweden	1,227	147	**7,700**
Belgium	703	71	4,700

Source: Battelle Institute, London, and *American Banker*

New Chief of the Cleveland Fed Is True Believer in Free Markets

Special to the American Banker

PITTSBURGH — W. Lee Hoskins, the newly appointed president of the Federal Reserve Bank of Cleveland, puts his faith in free enterprise.

W. Lee Hoskins

Whether it is in setting monetary policy or regulating financial institutions, Mr. Hoskins believes that government's role is a lot less important than many people make it out to be.

"You could identify me as a classical economist, though I might identify myself more as a free-market economist," he said Monday, shortly after his appointment was announced. "I believe you should allow the market to allocate resources."

The Cleveland Fed oversees the Fourth Federal Reserve District, which includes Ohio, western Pennsylvania, the northern panhandle of West Virginia, and eastern Kentucky. It has 1,400 employees, branches in Pittsburgh and Cincinnati, and a check-clearing center in Columbus.

Mr. Hoskins, 46, will assume his duties on Sept. 21, after spending seven years as chief economist at PNC Financial Corp. and its lead bank, Pittsburgh National Bank. He will succeed Karen N. Horn, who resigned in early April to become chairman and chief executive officer of Bank One, Cleveland.

One of Mr. Hoskins' key jobs will be to help set monetary policy as a member of the Federal Open Market Committee. The Cleveland Fed president has served on the committee every other year, rotating with the president of the Chicago Fed.

Mr. Hoskins' name has been mentioned for several government posts in recent years, including a seat on the Federal Reserve Board in 1985. He never pursued any of those opportunities until now.

"For the 17 years of my professional life, I've either been researching monetary policy or reacting to it," he said. "I think it's about time I had a chance to make monetary policy."

Mr. Hoskins' first term on the committee will start in March. He said he is looking forward to serving because of the group's power to influence inflation, a problem that still worries him.

But he also counsels against believing that the committee can have a major impact on the growth of the economy.

"The primary role of the Federal Reserve is to provide stability in the financial system. And that includes price stability," he said.

"The Federal Reserve cannot make for real growth. There are fundamental [economic] factors that do that. We can only affect the price level."

That is also the philosophy Mr. Hoskins expects to see from the new Federal Reserve chairman, Alan Greenspan.

"I see his monetary policy as one of recognizing its limits," Mr. Hoskins said. "It cannot stimulate real growth in the economy forever."

When it comes to bank regulation, Mr. Hoskins sees the free-market system applying on two fronts.

He favors continued deregulation of the banking industry. It is the only way American banks will be able to compete with their counterparts in other countries, he said.

Mr. Hoskins said it is premature to comment on specific changes he would like to see. But he made it clear that he believes government should not have to lead the way.

Asked what his regulatory philosophy is, Mr. Hoskins said: "The general thrust is that bank managers would be responsible for the management of their resources. Regulators should not be telling banks how to use these resources. They should depend on the marketplace to determine that."

Before joining PNC, Mr. Hoskins spent 11 years at the Federal Reserve Bank of Philadelphia. When he left in 1980, he was vice president and director of research. ■